

HART SCHAFFNER & MARX



Forty-fifth Annual Report
November 30, 1955

EXECUTIVE OFFICES

36 SOUTH FRANKLIN STREET

CHICAGO 6, ILLINOIS



BOARD OF DIRECTORS

EUGENE BASHORE

JOSEPH HALLE SCHAFFNER

JOHN D. GRAY

JOEL SPITZ

WALTER M. HEYMANN

CLAY E. STEELE

MEYER KESTNBAUM

HARRY L. WELLS



OFFICERS

| | |
|----------------------------------|--------------------------------------------|
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| JOHN D. GRAY | <i>Vice-President</i> |
| MORRIS GREENBERG | <i>Vice-President</i> |
| BERNARD A. RITTERSPORN | <i>Vice-President</i> |
| MARIO CIUCCI | <i>Vice-President</i> |
| L. G. JOHNSON | <i>2nd Vice-President</i> |
| CLAY E. STEELE | <i>Secretary and Treasurer</i> |
| R. W. GARBE | <i>Comptroller and Assistant Secretary</i> |
| J. S. GORE | <i>Assistant Treasurer</i> |



TRANSFER AGENTS

The First National Bank of Chicago

Chicago 90, Illinois

Bankers Trust Company

New York 15, N. Y.

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago

Chicago 90, Illinois

The New York Trust Company

New York 15, N. Y.

HART SCHAFFNER & MARX

CHICAGO

NEW YORK

March 5, 1956

To the Stockholders:

The accompanying report reflects the results of the operations of your company for the fiscal year ending November 30, 1955. We believe that these results justify the expectations which were expressed at this time last year. Consolidated sales of \$74,771,105 show an increase of a little more than \$8,000,000. Both the manufacturing and retail divisions contributed to the increase and the figures also reflect the first full year of the Society Brand operation. The net profit for the year of \$1,736,352 represents an increase of approximately \$500,000 over the previous year, the best profit showing the company has made since 1948.

The Balance Sheet reflects the increased capital requirements of a growing volume of business. Inventories and Accounts Receivable are higher than they were a year ago. Indebtedness to the banks is also slightly higher than at the end of last year. By January 31, 1956 bank loans had been reduced to \$2,500,000. Expenditures for Leasehold Improvements and Fixed Assets which amounted to \$997,072 continued at approximately the same level as the previous year. Our plans for 1956 call for a larger program of modernization and expansion.

A number of new stores were opened during the year just ended. The most important of these is the new Wallach unit at 46th Street and Fifth Avenue which opened in March and which is producing a very satisfactory volume of business. Silverwood's of Los Angeles opened a new branch in Panorama City last October. Sales of this store have also been highly encouraging.

Because of growing capital requirements the company has maintained a conservative policy with respect to dividends. Your directors now consider it in the best interests of the company to submit to the stockholders a plan for an increase in capitalization which would permit the payment of a stock dividend. Subject to that approval the directors declared a stock dividend of 25% to be distributed at an appropriate date after the Annual Meeting. It is contemplated that the first cash dividend declared on the total outstanding stock will be at the present rate of 40¢ per share.

The directors have also approved a plan under which the 24,900½ shares of stock now held in the treasury and any accretions thereto as a result of stock dividends thereon or reclassifications thereof will be made available for options to employees. Options have been granted to 37 officers and key employees of the company to purchase 19,640 shares of the Common Stock of the company now held in the treasury at a price of

\$33.25 per share, the highest price at which the stock sold on the day the options were granted. The directors believe that a program which permits a group of its important employees to acquire an interest in the company and to participate in its welfare is in the best interests of the stockholders. In common with many leading companies who have adopted this policy as an added incentive to the recruitment and retention of key personnel, we believe that this is a sound and constructive step that will enhance the future of the company.

We are engaged in an industry which is subject to marked fluctuations but we believe that the outlook is favorable at the present time. The improvement in income that has taken place in recent years has increased the number of potential customers for our product. American men are showing greater interest in their apparel and we are encouraged to believe that our position as a producer of clothes of high quality is stronger than it has been for many years.

Respectfully submitted,

MEYER KESTNBAUM

President

HART SCHAFF AND SUBSIDIARIES

CONSOLIDATED

November 30,

Assets

| | 1955 | 1954 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 2,439,300 | \$ 3,279,178 |
| Notes and accounts receivable: | | |
| Trade, less allowances for doubtful balances and discounts | 9,893,320 | 8,670,590 |
| Other | 328,328 | 349,689 |
| Inventories: | | |
| Factory inventories at cost or market, whichever is lower for current season's goods and estimated realizable value for past seasons' goods; retail stores' inventories at cost or market whichever is lower | 22,369,203 | 19,631,948 |
| Prepaid rentals, insurance, supplies, etc. | 624,892 | 718,914 |
| Total current assets | <u>\$35,655,043</u> | <u>\$32,650,319</u> |
| Other Assets: | | |
| U. S. Government securities (at cost) on deposit under lease agreements | \$ 69,580 | \$ 69,580 |
| Sundry investments | 64,132 | 89,233 |
| Cash surrender value of life insurance policies | 136,800 | 129,694 |
| | <u>\$ 270,512</u> | <u>\$ 288,507</u> |
| Properties, at cost: | | |
| Building, shop equipment, furniture and fixtures | \$11,237,964 | \$10,749,893 |
| Less—Accumulated depreciation | 5,951,797 | 5,564,999 |
| | <u>\$ 5,286,167</u> | <u>\$ 5,184,894</u> |
| Leaseholds and leasehold improvements, less amortization | 5,198,073 | 5,373,793 |
| Land | 748,341 | 748,341 |
| | <u>\$11,232,581</u> | <u>\$11,307,028</u> |
| Goodwill, Trade Names and Trademarks | <u>\$ 1</u> | <u>\$ 1</u> |
| | <u>\$47,158,137</u> | <u>\$44,245,855</u> |

FNER & MARX
RY COMPANIES

BALANCE SHEET
1955 and 1954

| | Liabilities | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| | 1955 | 1954 |
| Current Liabilities: | | |
| Notes payable | \$ 3,500,000 | \$ 3,078,711 |
| Current maturities of funded debt | 670,000 | 660,000 |
| Accounts payable: | | |
| Trade | 3,997,615 | 2,717,616 |
| Other | 1,250,269 | 1,103,084 |
| Accrued salaries, wages and rents | 1,068,094 | 970,794 |
| Accrued taxes (other than taxes on income) | 477,316 | 443,068 |
| Federal and state taxes on income | 1,710,338 | 1,154,100 |
| Total current liabilities | \$12,673,632 | \$10,127,373 |
| Funded Debt: | | |
| 3 $\frac{5}{8}$ % note payable, due June 1, 1969 | \$ 6,675,000 | \$ 7,265,000 |
| Note payable by subsidiary company | — | 210,000 |
| | \$ 6,675,000 | \$ 7,475,000 |
| Less—Current maturities transferred to current liabilities | 670,000 | 660,000 |
| | \$ 6,005,000 | \$ 6,815,000 |
| Advance by lessor toward leasehold improvements by subsidiary company payable monthly over lease ex- piring in 1977 | 218,994 | 225,689 |
| | \$ 6,223,994 | \$ 7,040,689 |
| Minority Stockholders' Interest | \$ 130,822 | \$ 125,714 |
| Stockholders' Equity: | | |
| Common stock—authorized and issued—375,000 shares par value \$10.00 each | \$ 3,750,000 | \$ 3,750,000 |
| Capital surplus (1955 increase of \$1,417 resulting from acquisition of capital stock of subsidiary company) | 2,071,381 | 2,069,964 |
| Earnings retained for use in the business: | | |
| Appropriated for contingencies | 700,000 | 700,000 |
| Unappropriated, per accompanying statement | 22,084,865 | 20,908,672 |
| | \$28,606,246 | \$27,428,636 |
| Deduct—Treasury stock—24,900 $\frac{1}{2}$ shares | 476,557 | 476,557 |
| | \$28,129,689 | \$26,952,079 |
| | \$47,158,137 | \$44,245,855 |

See notes to financial statements

HART SCHAFFNER & MARX
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF INCOME
AND UNAPPROPRIATED RETAINED EARNINGS

For the fiscal years ended November 30, 1955 and 1954

| | 1955 | 1954 |
|----------------------------------------------------------------------------------------|---------------------|---------------------|
| Net sales and operating revenues | \$74,771,105 | \$66,575,717 |
| Dividends from sundry investments, interest and other income | 101,751 | 145,996 |
| Total | <u>\$74,872,856</u> | <u>\$66,721,713</u> |
| Less: | | |
| Cost of goods sold and occupancy expenses (exclusive of depreciation and amortization) | \$53,244,778 | \$47,530,205 |
| Depreciation and amortization | 1,016,888 | 928,866 |
| Selling, general and administrative expenses | 16,395,802 | 15,157,914 |
| Interest paid | 408,892 | 400,099 |
| Sundry income deductions | 2,482 | 11,830 |
| Minority interest in net profit of subsidiaries | 7,125 | 3,528 |
| | <u>\$71,075,967</u> | <u>\$64,032,442</u> |
| Income before deducting provision for taxes | <u>\$ 3,796,889</u> | <u>\$ 2,689,271</u> |
| Provision for taxes on income: | | |
| Federal normal income tax and surtax | \$ 2,014,017 | \$ 1,431,657 |
| State income taxes | 46,520 | 29,048 |
| | <u>\$ 2,060,537</u> | <u>\$ 1,460,705</u> |
| Net income for the year | <u>\$ 1,736,352</u> | <u>\$ 1,228,566</u> |
| Earnings retained for use in the business at beginning of year | 20,908,672 | 20,240,265 |
| | <u>\$22,645,024</u> | <u>\$21,468,831</u> |
| Dividends paid in cash \$1.60 per share | <u>560,159</u> | <u>560,159</u> |
| Earnings retained for use in the business at end of year | <u>\$22,084,865</u> | <u>\$20,908,672</u> |

See Notes to Financial Statements

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx:

In our opinion, the accompanying financial statements present fairly the consolidated position of Hart Schaffner & Marx and subsidiary companies at November 30, 1955, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of the statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois
January 25, 1956

PRICE WATERHOUSE & CO.

NOTES TO FINANCIAL STATEMENTS

Under the terms of the agreement for the 3 $\frac{5}{8}$ % note payable, due June 1, 1969, \$19,940,265 of the total consolidated unappropriated retained earnings at November 30, 1955, is restricted as to payment of cash dividends.

As of November 30, 1955, the company and its subsidiaries occupied properties under seventy-four lease agreements with terms expiring from one to forty-two years after that date, and requiring a minimum rental payment of approximately \$1,836,000 for 1956. Certain of the leases provide for the payment of taxes by the lessees and additional rental based upon a percentage of sales in excess of stipulated minimums.

TEN YEAR

| | 1955 | 1954 | 1953 | 1952 |
|---------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Net Sales and Operating Revenue | \$74,771,105 | \$66,575,717 | \$68,866,677 | \$62,263,140 |
| Federal Income Taxes Per Share | 2,014,017 5.75 | 1,431,657 4.09 | 1,580,005 4.51 | 807,453 2.31 |
| Net Earnings After Federal Income Taxes Per Share | 1,736,352 4.96 | 1,228,566 3.51 | 1,425,196 4.07 | 1,035,420 2.96 |
| Dividends Paid in Cash Per Share | 560,159 1.60 | 560,159 1.60 | 560,159 1.60 | 560,159 1.60 |
| Earnings Retained in the Business | 1,176,193 | 668,407 | 865,037 | 475,261 |
| Property Additions* | 997,072 | 939,179 | 245,118 | 511,656 |
| Current Assets | 35,655,043 | 32,650,319 | 34,681,643 | 31,226,448 |
| Current Liabilities | 12,673,632 | 10,127,373 | 14,676,141 | 12,129,777 |
| Net Working Capital | 22,981,411 | ‡22,522,946 | 20,005,502 | 19,096,671 |
| Fixed Assets—Less Depreciation and Amortization | 11,232,581 | 11,307,028 | 11,336,157 | 12,038,940 |
| Net Worth Per Share | 28,129,689 80.35 | 26,952,079 76.98 | 26,280,108 75.06 | 25,415,675 72.60 |

*Retail store leasehold improvements and equipment—Real Estate—Factory Building and manufacturing equipment, exclusive of properties acquired through purchase of subsidiary companies.

‡During the year 1954 the 3½% debentures of \$4,765,000 were retired and a new 3⅝% note in the amount of \$7,265,000 payable in annual installments over a fifteen year period was issued. The net proceeds of \$2,500,000 (less \$590,000 payable in 1955 which is included in current liabilities of 1954) were added to working capital.

SUMMARY

| 1951 | 1950 | 1949 | 1948 | 1947 | 1946 |
|--------------------------|--------------------------|-------------------------|--------------------------|-------------------------|-------------------------|
| \$61,672,439 | \$59,257,388 | \$57,773,088 | \$63,037,888 | \$56,527,917 | \$45,808,460 |
| 1,721,211 4.92 | 1,217,049 3.43 | 975,298 2.75 | 2,025,253 5.71 | 2,307,804 6.51 | 2,202,476 6.07 |
| 1,518,752 4.34 | 1,647,733 4.65 | 1,638,746 4.62 | 2,927,852 8.26 | 3,284,384 9.26 | 3,423,126 9.44 |
| 567,412 1.60 | 780,192 2.20 | 851,118 2.40 | 851,118 2.40 | 855,678 2.40 | 644,518 1.80 |
| 951,340 | 867,541 | 787,628 | 2,076,734 | 2,428,706 | 2,778,608 |
| 1,290,444 | 2,098,111 | 2,419,324 | 3,476,655 | 3,203,618 | 1,632,412 |
| 31,051,499 12,571,725 | 29,724,708 11,496,923 | 24,786,344 5,852,690 | 28,033,290 10,088,636 | 22,121,816 9,090,219 | 20,179,895 6,416,958 |
| 18,479,774 | 18,227,785 | **18,933,654 | †17,944,654 | 13,031,597 | 13,762,937 |
| 11,902,302 | 11,357,234 | 10,032,562 | 8,385,328 | 5,547,903 | 2,604,087 |
| 24,387,368 69.66 | 23,509,594 66.29 | 22,620,580 63.79 | 21,832,952 61.57 | 19,756,218 55.71 | 17,580,661 48.48 |

**During 1949 the company issued an additional \$2,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$485,000 payable in 1950 which is included in current liabilities of 1949) were added to working capital.

†In 1948 the company issued \$6,000,000 of 3½% sinking fund debentures, the proceeds from which (less \$400,000 payable in 1949 and included in current liabilities of 1948) were added to working capital.

